



City of Cincinnati

Council

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November 15, 2007

MOTION

200701199

We move that City Council establish a Task Force to make recommendations to the City Council to insure the long-term solvency of the Cincinnati Retirement System (CRS). This Task Force should examine the actuarial assumptions underlying projections of the financial condition of the CRS, the impact of current and future retiree health care benefits on the CRS, and the impact of any changes in health care benefits on the solvency of the CRS. This Task Force should recommend to the Mayor and the City Council:

1. Any administrative and procedural changes that would reduce costs, including opening to bid provision of health care coverage.
2. Any changes in contribution rates, actuarial assumptions, benefit calculations that should be instituted to insure the solvency of the CRS.
3. Any reforms that would protect the City of Cincinnati's General Fund from continuously increasing contribution requirements.
4. The Task Force should examine all possible improvements and changes that would reduce the long-term liabilities of the taxpayers of Cincinnati.
5. Any recommendations should recognize the needs of individuals who retired due to disability, and whose service retirement was not calculated under 2.22%/2.5% upon reaching age 65.

The Task Force should present to the Mayor and Council a minimum of two alternative methods by which the council can insure the long-term financial solvency of the Cincinnati Retirement System.

The membership of the Task Force shall include:

1. The City Manager
2. The chairperson of the Retirement Board
3. A representative from AFSCME
4. A representative from CODE
5. A maximum of six community members based upon their expertise in the areas of investment, actuarial projections, and/or pension systems.

The Task Force will retain an independent actuary. The actuary shall be selected from a list agreed upon by the Task Force members. All members of the Task Force will agree to accept the conclusions of the firm.

The Mayor shall appoint the members of the Task Force after consulting with the council.

The Task Force will make its recommendations to the Mayor and the Council by June 1, 2008. The recommendations of the Task Force should be delivered to City Council in time to impact the 2009-2010 Biennial Budget.

David C. Crowley *Robert Swale*
W. B. B. B. *J. C.*
[Signature] *Paul Jones*
Patricia L. L. *[Signature]*

STATEMENT

The City of Cincinnati's Retirement System is one of the healthiest in the country due to the diligence exercised by previous Retirement Boards, City Councils, Finance Directors, and fund administrators. The Retirement System now faces issues similar to those experienced in the private sector due in large part to the escalating costs of health care and the decrease in the ratio of contributors to the system to those withdrawing from the system.

Good stewardship of the public's trust and oversight of the public's money require the Council to exercise due diligence in any changes it undertakes related to the Cincinnati Retirement System. No change should be undertaken without adequate knowledge of the consequences to the beneficiaries, the taxpayers, and the system.

The section in italics that follows provides some background to the current situation we now face.

(The source of the following information is an undated report submitted to the Retirement Board in 2004. Please see the attached report.)

The City of Cincinnati's retirement plan provides pension and health care benefits to approximately 10,000 active and retired members. The retirement formula for pension payments differs for employees hired on or before July 1, 1999. The formula for health care coverage differs for members hired after January 9, 1997. Those members hired after January 9, 1997 share the cost of their health care based upon a "point system" when they retire.

The system of benefits was significantly enhanced during the 1990's based upon the remarkable investment returns to the system. The improvements included:

- 1. Increasing the pension formula from 2.0% for each year of service to the current level of 2.5% or 2.22%*
 - a. This change was made retroactive for all years of service accrued to date, resulting in an increase of up to 25% in a members pension benefit.*
- 2. The annual cost of living increase was changed from a simple COLA to a compounded COLA.*
 - a. The COLA is set at a fixed 3% increase in a retiree's pension benefit, compounded annually.*
- 3. Added vision and dental benefits for retirees.*
 - a. Provided at no cost to retirees.*

The City of Cincinnati's contribution was reduced from the 14%-20% contributed in earlier years to 7% of payroll from 1999-2003.

As the equity market was peaking, retiree health care costs were increasing at a faster than expected rate. The net effect of the medical cost inflation changes was estimated by Mercer to increase the plan's liabilities by \$166,188,000. These were unexpected liabilities for which neither the city nor its employees had contributed.

In January 2003, the Retirement Board retained PCA and EFI to perform an asset liability study. One very notable conclusion of the study was that the Cincinnati Retirement System would face a surge in retirements from 2003-2008 estimated to be approximately 23% of the then current labor force. They concluded that if no plan changes occurred and the city funded all shortfalls, that the increasing costs of health care, the bursting of the equity bubble, and the retirement of the baby boom generation would require a four-fold increase in the city's contribution. They estimated that the city's contribution could increase to 46% of payroll by 2007 and at some future point to \$83 million.

The study concluded that if the fund maintained an 8.75% annual return, active members could continue to contribute only 7% of pay to the plan, and the city's contribution would remain above 20% for the next 25 years, but would decline slowly to 13.5% in 60 years.

The CRS actuaries have revised the estimated annual return on investments from 8.75% to 8%. As a consequence, the estimated city contribution has increased. There is significant disagreement among policymakers, beneficiaries, and employee representatives regarding the estimated future liabilities of the system. It is in the public's interest for the city council to act prudently and diligently to insure the health of the CRS, protect the pensions of current and future retirees, and judiciously manage the city's contribution to the system to mitigate any negative service impacts due to increasing liabilities.